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MALAYSIA

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	1/
Income, Production and Employment:				
Nominal GDP	101,236	72,569	78,928	2/
Real GDP Growth (pct)	7.5	-7.5	4.3	3/
GDP by Sector (1978 prices):				
Agriculture	6,106	4,377	4,723	
Manufacturing	20,981	12,984	14,587	
Mining And Petroleum	5,144	3,755	3,827	
Construction	3,389	1,871	1,860	
Services	31,729	22,466	23,697	
Government Services	4,641	3,506	3,616	
Per Capita GDP (US$)	4,564	3,272	3,475	
Labor Force (000s)	9,038	8,880	9,010	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)(pct)	22.7	1.5	12.4	4/
Consumer Inflation (pct)	2.7	5.3	3.0	
Exchange Rate (RM/US$ annual average)	2.81	3.92	3.80	
Balance of Payments and Trade:				
Total Exports FOB	77,478	71,925	79,189	
Exports to U.S.	18,017	19,001	9,816	5/
Total Imports FOB	73,822	54,321	59,682	
Imports from U.S.	10,828	8,952	4,270	5/
Trade Balance	3,656	17,604	19,507	
Balance with U.S.	7,189	10,049	5,546	
External Public Debt	23,280	17,387	19,078	
Fiscal Surplus/GDP (pct)	2.3	-1.9	-4.9	
Current Account Surplus/GDP (pct)	-5.6	12.9	14.0	6/
Debt Service Payments/GDP (pct)	5.0	6.9	N/A	
Gold and Foreign Exchange Reserves	21,700	26,196	30,200	7/
Aid from U.S.	0.6	0.9	1.0	

Aid from All Other Countries	N/A	N/A	N/A

1/ Malaysian Government estimates.
2/ Converted at annual average exchange rates.
3/ Calculated in ringgit to avoid exchange rate changes.
4/ July data for 1999.
5/ U.S. Commerce Department data, January-June for 1999.
6/ Deficit for 1997
7/ End-October data for 1999.

1. General Policy Framework

After nearly a decade of strong economic growth averaging 8.7 percent annually, Malaysia was hard hit by the regional financial and economic crisis of 1997-98. After contracting 7.5 percent in 1998, the economy returned to positive growth in the second quarter of 1999. Analysts predict 5-6 percent growth in 1999 and continued strong growth in 2000. Growing consumer and investor confidence is reflected in increased auto sales, consumer credit mortgage approvals, and a three-fold increase in the Kuala Lumpur Stock Exchange Composite Index from its record low of 262.7 in September 1998 to trading levels in the 720 – 750 range in November 1999. Malaysia's economic recovery has been export led, based in part on growing electronics exports to the United States, Malaysia's principal trade and investment partner, and the region and also the result of increased government spending.

Foreign direct and portfolio investment has not returned to pre-crisis levels. Investor concerns are focused on excessive commercial property investment, high levels of domestic corporate debt, the lack of transparent policies regarding support for troubled firms, and continued trade and investment restrictions. To deal with a growing number of non-performing loans (NPLs) during the financial crisis, in 1998 the government established an asset management corporation, Danaharta, and a special purpose vehicle, Danamodal, to inject funds into banks in need of recapitalization. The government also created the Corporate Debt Restructuring Committee (CDRC) to provide a framework for creditors and debtors voluntarily to resolve liquidity problems of viable businesses and serve as an alternative to bankruptcy. Danaharta has removed about one-third of the NPLs from the banking system. CDRC has completed the first stages of the debt workout process for a substantial number of firms and reportedly hopes to complete its activities by the end of 2000.

The government plays a strong pro-active role in the economy as investor, economic planner, approver of investment projects, approver of public and private procurement decisions, author and implementor of policies and programs to bolster the economic status of the Malay and indigenous communities (commonly referred to as *bumiputras*), and decisionmaker over privatization contracts. The government holds equity stakes (generally minority shares) in a wide range of domestic companies, usually large players in key sectors, and can exert considerable influence over their operations. The economic downturn, however, slowed the push to privatization and increased emphasis on government support for sensitive industries, such as automobiles and steel. The government has said it will consider granting assistance to troubled corporations on the basis of three criteria: national interest, strategic interest, and equity considerations under *bumiputra* policies.

Tariffs are the main instrument used to regulate the importation of goods in Malaysia. However, 17 percent of Malaysia's tariff lines (principally in the construction equipment, forestry, logging, agricultural mineral, and motor vehicle sectors) are also subject to non-automatic import licensing designed to protect import-sensitive or strategic industries. Although the average applied MFN tariff rate of Malaysia has declined to approximately 8.1 percent, duties for tariff lines where there is significant local production are often higher. For example, 15.8 percent of product tariff lines in Malaysia's tariff schedule have rates over 24 percent, 25.9 percent of tariff lines have rates over 15 percent, and many lines have rates well over 100 percent.

The level of tariff protection is generally lower on raw materials and increases for those goods with value-added content or which undergo further processing. The government urges Malaysians to purchase domestic products, instead of imports, whenever possible. In addition to import duties, a sales tax of 10 percent is levied on most imported goods. Like import duties, however, this sales tax is not applied to raw material and machinery used in export production. Malaysia has been an active participant in multilateral and regional trade fora such as the World Trade Organization (WTO) and APEC (which it chaired in 1998).

Fiscal Policy: The government is pursuing an expansive fiscal policy in order to stimulate economic growth. The government expects to run a budget deficit in 2000 of approximately 4.4 percent of GNP, slightly less than the 1999 deficit. The Malaysian government finances domestically the bulk of the deficit.

Monetary Policy: The central bank has been progressively loosening monetary policy to lead the economy out of recession. Statutory reserve requirements have been reduced steadily from 13.5 percent as of year-end 1997 to 4 percent in September 1998. The central bank also lowered the liquid asset requirements for commercial banks, reduced an administrative margin used to calculate the base lending rate, and cut its 3 month intervention rate from 8 percent to 5.5 percent. A significant drop in interest rates has accompanied the loosening of monetary policy. The base lending rate dropped from 8.04 percent in early November 1998 to 6.8 percent in November 1999.

2. Exchange Rate Policy

In September and October 1999, the Malaysian government relaxed capital control measures on foreign portfolio investment instituted on September 1, 1998, as part of a broad effort to stabilize the currency while stimulating the economy. On September 2, 1998, the government fixed the exchange rate of the Ringgit to the U.S. Dollar at RM 3.8/US$1 and instituted selective capital controls, including a controversial tax on repatriated principal and profits. At present foreign portfolio investment is subject to a flat 10 percent exit tax on repatriated profits.

3. Structural Policies

Pricing Policies: Most prices are market-determined but controls are maintained on some key goods, such as vegetable oil, fuel, public utilities, cement, motor vehicles, rice, flour, sugar, tobacco, and chicken. (Note: no restrictions are placed on wheat imports.)

Tax Policies: Tax policy is geared toward raising government revenue and discouraging consumption of "luxury" items. Income taxes, both corporate and individual, comprise 40 percent of government revenue with indirect taxes, export and import duties, excise taxes, sales taxes, service taxes and other taxes accounting for another 31 percent. The remainder comes largely from dividends generated by state-owned enterprises and petroleum taxes.

The Year 2000 budget features personal tax reductions, generous benefits for civil servants and tax incentives to encourage financial institution mergers. The Government will also lower or abolish duties on 179 categories of food products (fresh, dried, and processed). Beginning in 2000, the tax assessment system will base tax collection on current year income rather than previous year income. High-technology and information-technology companies which establish in the Multimedia Super Corridor (a government-established zone designed to concentrate and stimulate development of high-technology multimedia industries) are granted attractive tax incentives.

Standards: Malaysia has extensive standards and labeling requirements, but these appear to be largely implemented in an objective, nondiscriminatory fashion. Food product labels must provide ingredients, expiry dates and, if imported, the name of the importer. Electrical equipment must be approved by the Ministry of International Trade and Industry, telecommunications equipment must be "type approved" by the Communications and Multimedia Commission. Telecommunications and aviation equipment must be approved by the Department of Civil Aviation. Pharmaceuticals must be registered with the Ministry of Health. In addition, the Standards and Industrial Research Institute of Malaysia provides quality and other standards approvals.

4. Debt Management Policies

Malaysia’s medium and long-term foreign debt (both public and private sector) amounted to $34.7 billion at the end of 1998, about 44 percent of GDP. Malaysia’s debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 6.9 percent in 1998.

5. Aid

U.S. government assistance to Malaysia in FY-1999 falls into three broad categories: the Trade Development Agency (TDA), the International Military Education Training (IMET) program ($700,000), and the U.S.-Asia Environment Program (US-AEP.) Although statistics are not available for assistance provided from other governments, since 1998 the Japanese government has extended financial assistance to help Malaysia recover from the economic crisis: Japanese Government Office of Developmental Assistance (ODA) Yen Loan Projects approximately $1.05 billion, Japanese EX-IM Bank approximately $700 million, EX-IM Bank guaranteed Commercial bank loans approximately $700 million, Japanese government guaranteed commercial bank loans approximately $560 million, and a short-term financing facility up to $2.5 billion.

6. Significant Barriers to U.S. Exports

Import Restrictions on Motor Vehicles: Malaysia maintains several measures to protect the local automobile industry, including high tariffs and an import quota and licensing system on imported motor vehicles and motor vehicle parts. Malaysia also maintains local content requirements of 45 to 60 percent for passenger and commercial vehicles, and 60 percent for motorcycles. The government maintains that local content restrictions will be phased out by the year 2000 in accordance with its WTO commitments (see investment barriers.) However, Malaysia has requested an extension of its commitments under the ASEAN Free Trade Area (AFTA) to reduce tariffs in the auto sector by the year 2000. These restrictions have hampered the ability of U.S. firms to penetrate the Malaysian market. Customs tariffs and excise duties (up to 50 percent) for motorcycles are also significant barriers for U.S. companies. Malaysia is also considering new emissions standards for motorcycles, which could restrict market opportunities for imports.

Products	*Tariff (pct)*
Automobiles (CB)	140-300
Automobiles (CKD)	80
Vans (CBU)	42-140
Van (CKD)	40
4WD/ Multipurpose (CBU)	60-200
4WD/ Multipurpose (CKD)	40
Motorcycle (CBU)	80-120
Motorcycle (CKD)	30

Restrictions on Construction Equipment: In October 1996, Malaysia raised duties on construction equipment from 5 to 20 percent. In addition, the initial capital allowance for imported heavy equipment will be reduced from 20 to 10 percent in the first year, and the annual allowance will be reduced from between 12 percent and 20 percent to 10 percent. In October 1997, the government imposed a restrictive licensing regime on imports of heavy construction equipment and raised import duties for the second year in a row, as detailed below. In April 1999, another licensing requirement was established for certain iron and steel products.

Products	*Tariff (pct)*
Heavy Machinery & Equipment	5
Multi-Purpose Vehicles	50
Special Purpose Vehicles	50
Construction Materials	10-30

Duties on High Value Food Products: Duties for processed and high value products, such as canned fruit, snack foods, and many other processed foods, range between 20 and 30 percent. The applied tariff on soy protein concentrate is 20 percent.

Duties on Alcoholic Beverages and Tobacco Products: High tariffs (increased 10/23) on tobacco products ($10.5-48/kg) and alcoholic beverages (e.g., vermouth in retail-sized containers is subject to a specific tariff of $31.5/dal) hamper U.S. exports.

Plastic Resins: U.S. exports of some plastic resins are hampered by 20 percent tariffs.

Tariff-Rate Quota for Chicken Parts: Although the government applies a zero import duty on chicken parts, imports are regulated through licensing and sanitary controls, and import levels remain well below the minimum access commitments established during the Uruguay Round.

Float Glass Tariff Differentials: Malaysia levies high duties (65 sen/kilogram or 50-100 percent ad valorem equivalent) on rectangular-shaped float glass. Nearly all float glass that moves in world trade is rectangular. To qualify for the lower ad valorem MFN tariff rate of 30 percent levied on non-rectangular float glass, exporters often must resort to time-consuming, wasteful procedures such as cutting off one or more corners or cutting one edge in a slanted fashion. This is an inefficient and expensive process that requires distributors to recut each piece of glass into a rectangular shape once it has cleared customs.

Rice Import Policy: The sole authorized importer of rice is a government corporation with the responsibility of ensuring purchase of the domestic crop and wide power to regulate imports.

Film and Paper Product Tariff: Malaysia applies a 25 percent tariff on imported instant print film that is estimated to cause an annual trade loss of $10 to $25 million for U.S. industry. In August 1994, the government raised tariffs on several categories of imported kraft linerboard (used in making corrugated cardboard boxes) to between 20 and 30 percent depending on the category. These tariff increases are to be phased out after five years and are subject to review every two years. Malaysia did not change the tariff levels after the 1996 review.

Direct Selling Companies: In May 1999, the Malaysian Government announced new requirements for the licensing and operation of direct selling companies. These requirements include a) no more than 30 percent of the locally incorporated company can be foreign owned, b) local content of products should be no less than 80 percent, c) no new products would be approved for sale that did not meet local content requirements, and d) all price increases would be approved by the Ministry of Domestic Trade and Consumer Affairs. These guidelines also spell out the conditions under which companies may receive one, two and three year licenses. The Ministry indicated that the local content targets are not mandatory, except for adherence to Malaysia's national equity policy.

Government Procurement: Malaysian Government policy calls for procurement to be used to support national objectives such as encouraging greater participation of ethnic Malays (*bumiputras*) in the economy, transfer of technology to local industries, reducing the outflow of foreign exchange, creating opportunities for local companies in the services sector, and enhancing Malaysia's export capabilities. As a result, foreign companies do not have the same opportunity as some local companies to compete for contracts and in most cases foreign companies are required to take on a local partner before their bid will be considered. Some U.S. companies have voiced concerns about the transparency of decisions and decision-making processes. Malaysia is not a party to the plurilateral WTO Government Procurement Agreement.

Investment Barriers: Malaysia encourages direct foreign investment particularly in export-oriented manufacturing and high-tech industries, but retains considerable discretionary authority over individual investments. Especially in the case of investments aimed at the domestic market, it has used this authority to restrict foreign equity (normally to 30 percent) and to require foreign firms to enter into joint ventures with local partners. To alleviate the effects of the economic downturn, Malaysia announced relaxation (until December 31, 2000) of foreign-ownership and export requirements in the manufacturing sector for companies producing goods that do not compete with local producers. Most foreign firms face restrictions in the number of expatriate workers they are allowed to employ.

Trade-Related Investment Measures: Malaysia has notified the WTO of certain measures that are inconsistent with its obligations under the WTO agreement on Trade-Related Investment Measures (TRIMS). The measures deal with local requirements in the automotive sector. New projects or companies granted "pioneer status" are eligible to receive a 70 percent income tax exemption. Proper notification allows developing-county WTO members to maintain such measures for a five-year transitional period after entry into force of the WTO. Malaysia therefore must eliminate these measures before January 1, 2000. The United States is working in the WTO committee on TRIMS to ensure that WTO members meet these obligations.

Services Barriers: Under the WTO basic telecommunications agreement, Malaysia made commitments on most basic telecommunications services and partially adopted the reference paper on regulatory commitments. Malaysia guaranteed market access and national treatment for these services only through acquisition of up to 30 percent of the shares of existing licensed public telecommunications operators, and limits market access commitments to facilities-based providers. At least two U.S. firms have investments in basic and enhanced services sectors.

Professional Services: Foreign professional services providers are generally not allowed to practice in Malaysia. Foreign law firms may not operate in Malaysia except as minority partners with local law firms, and their stake in any partnership is limited to 30 percent. Foreign lawyers may not practice Malaysian law or operate as foreign legal consultants. They cannot affiliate with local firms or use their international firm's name.

Under Malaysia's registration system for architects and engineers, foreign architects and engineers may seek only temporary registration. Foreign architectural firms are eligible only for special projects as agreed between Malaysia and an interested foreign government. Unlike engineers, Malaysian architectural firms may not have foreign architectural firms as registered partners. Foreign architecture firms may only operate as affiliates of Malaysian companies. Foreign engineering companies must establish joint ventures with Malaysian firms and receive "temporary licensing," which is granted only on a project-by-project basis and is subject to an economic needs test and other criteria imposed by the licensing board. Foreign accounting firms can provide accounting or taxation services in Malaysia only through a locally registered partnership with Malaysian accountants or firms, and aggregate foreign interests are not to exceed 30 percent. A licensed auditor in Malaysia must authenticate auditing and taxation services. Residency is required for registration.

Banking: No new licenses are being granted to either local or foreign banks; foreign banks must operate as locally controlled subsidiaries. Foreign-controlled companies are required to obtain 60 percent of their local credit from Malaysian banks. Insurance branches of foreign insurance companies were required to be locally incorporated by June 30, 1998; however, the government has granted extensions to that requirement. Foreign shareholding exceeding 49 percent is not permitted unless the Malaysian Government approves higher shareholding levels. As part of Malaysia's WTO financial services offer, the government committed itself to allow existing foreign shareholders of locally incorporated insurance companies to increase their shareholding to 51 percent once the WTO Financial Services Agreement goes into effect in 1999. New entry by foreign insurance companies is limited to equity participation in locally incorporated insurance companies and aggregate foreign shareholding in such companies shall not exceed 30 percent.

Securities: Foreigners may hold up to 49 percent of the equity in a stockbroking firm. Currently there are 11 stockbroking firms that have foreign ownership and 20 representative offices of foreign brokerage firms. Fund management companies may be 100 percent foreign-owned if they provide services only to foreign investors, but they are limited to 70 percent foreign-ownership if they provide services to both foreign and local investors.

Advertising: Foreign film footage is restricted to 20 percent per commercial, and only Malaysian actors may be used. The government has an informal and vague guideline that commercials cannot "promote a foreign lifestyle." Advertising of alcohol products is severely restricted.

Television and Radio Broadcasting: The government maintains broadcast quotas on both radio and television programming. Sixty percent of television programming is required to originate from local production companies owned by ethnic Malays. This share is scheduled to increase to 80 percent by the year 2000. Sixty percent of radio programming must be of local origin. The Ministry of Information announced in January 1998 that it would study the use of the Broadcasting Act of 1988 as the means of imposing further conditions on TV stations to provide additional airtime to local programming.

Other Barriers: U.S. companies have indicated that they would welcome improvements in the transparency of government decision-making and procedures, and limits on anti-competitive practices. A considerable proportion of government projects and procurement are awarded without transparent competitive bidding. The government has declared that it is committed to fighting corruption and maintains an Anti-Corruption Agency (a part of the office of the Prime Minister) to promote that objective. The agency has the independent power to conduct investigations and is able to prosecute cases with the approval of the Attorney General.

7. Export Subsidies Policies

Malaysia offers several export allowances. Under the export credit-refinancing scheme operated by the central bank, commercial banks and other lenders provide financing to exporters at a preferential interest rate for both post-shipment and pre-shipment credit. Malaysia also provides tax incentives to exporters, including double deduction of expenses for overseas advertising and travel, supply of free samples abroad, promotion of exports, maintaining sales offices overseas, and research on export markets. To spur exports, 70 percent of the increased export earnings by international trading companies has been exempted from taxes.

8. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO), the Berne Convention, and the Paris Convention. Malaysia provides copyright protection to all works published in Berne Convention member countries regardless of when the works were first published in Malaysia. Malaysia is also a member of the WTO and scheduled to meet its obligations under Trade Related Intellectual Property Agreement (TRIPS) on January 1, 2000.

As the number of manufacturing licenses for CDs has increased, so have piracy rates for music and video discs. Malaysia's production capacity for CDs far exceeds local demand plus legitimate exports, and pirate products believed to have originated in Malaysia have been identified throughout the Asia-Pacific region, North America, South America, and Europe. The Malaysian Government is aware of the problem and has expressed its determination to move against illegal operations. In the April 1999 Special 301 report, USTR decided to delay a decision on including Malaysia on the Watch List until an out-of-cycle review could be conducted to assess Malaysia's progress toward substantially reducing pirated optical media production and export.

In March 1998, the government opened an intellectual property training center to develop and offer programs for government officials, agencies, attorneys, and the judiciary. In April 1999, the government created an interagency task force to develop and implement a regulatory regime for optical media production. Since April, the government has drafted comprehensive optical media legislation, which was scheduled to be submitted to Parliament during its fall session. The November 11 dissolution of Parliament by the Prime Minister in anticipation of elections on November 29 has delayed consideration of the optical disc legislation and most TRIPS-related amendments to existing legislation until the first parliament session of the new government, most likely in Spring 2000.

Suppressing CD-based digital piracy is consistent with the government's objective to establish the Multimedia Super Corridor as the preeminent locus of high-technology manufacturing and innovation in Asia. Police and legal authorities are generally responsive to requests from U.S. firms for investigation and prosecution of copyright infringement cases. However, despite over 6,000 raids and inspections since April 1999, no one has been criminally prosecuted for piracy. Notwithstanding these efforts of the government, illegal production of optical disks remains a significant problem in Malaysia, and its effects have been observed throughout the region.

Trademark infringement and patent protection have not been serious problem areas in Malaysia for U.S. companies in recent years.

9. Worker Rights

a. The Right of Association: By law most workers have the right to engage in trade union activity, and approximately 10 percent of the work force are members of trade unions. Exceptions include certain categories of workers labeled "confidential" and "managerial and executives," as well as police and defense officials. The government discourages Malaysia's many foreign workers from joining unions and, in practical terms, foreigners are not able to engage in trade union activity. Government policy places a de facto ban on the formation of national unions in the electronics sector, but allows enterprise-level unions,

b. The Right to Organize and Bargain Collectively: Workers have the legal right to organize and bargain collectively, and collective bargaining is widespread in those sectors where labor is organized. However, severe restrictions on the right to strike weaken collective bargaining rights. The law requires that the parties to a labor dispute submit to a system of compulsory adjudication. Thus, though theoretically legal, strikes are extremely rare.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced or compulsory labor, and the government enforces this prohibition. There is no evidence that forced or compulsory labor occurs in Malaysia except for rare cases that, when discovered, are prosecuted vigorously by the government.

d. Minimum Age for the Employment of Children: Malaysian law prohibits the employment of children younger than the age of 14. The law permits some exceptions, such as light work in a family enterprise, work in public entertainment, work performed for the government in a school or training institutions, or work as an approved apprentice. In no case may children work more than six hours per day, more than six days per week, or at night. Child labor occurs, but there is no reliable recent estimate of the number of child workers. Most child laborers work in the urban informal sector and the agricultural sector.

e. Acceptable Conditions of Work: There is not minimum wage, but prevailing wages generally provide a decent living. Malaysian law stipulates working hours, mandatory rest periods, overtime rates, holidays, and other labor standards. The government enforces these standards. Working conditions on plantations are worse than in other areas of the economy. An occupational safety law provides some protections.

f. Rights in Sectors with U.S. Investment: U.S. companies invest widely in many sectors of the Malaysian economy. Worker rights in sectors in which there is U.S. investment generally do not differ from those in other sectors. U.S. companies invest heavily in the electronics sector, in which workers' right to organize is limited to enterprise-level unions.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,027
Total Manufacturing		4,199
Food & Kindred Products	3	
Chemicals & Allied Products	306	
Primary & Fabricated Metals	5	
Industrial Machinery and Equipment	743	
Electric & Electronic Equipment	2,669	
Transportation Equipment	0	
Other Manufacturing	473	
Wholesale Trade		166
Banking		393
Finance/Insurance/Real Estate		352
Services		84
Other Industries		-27
TOTAL ALL INDUSTRIES		6,193

Source: U.S. Department of Commerce, Bureau of Economic Analysis.